Briefing

citizens advice bureau

Delivery of support for childcare costs under Universal Credit

Introduction

In 2013/14 the Citizens Advice service, empowered by 22,000 volunteers, provided advice from 319 independent advice centres across more than 3,500 community locations in England and Wales, to over 2 million people face to face and over the phone. The biggest single area of advice was benefits.

Summary

Every large system will create problems for some individuals. However our experience of how benefits are delivered leads us to believe there are too many fault lines in the proposed system to deliver support for childcare costs under universal credit. **Under current regulations** childcare costs will be paid in arrears so the claimant who needs to pay for formal childcare in order to work may be forced into debt as a result of moving into work. If their childcare costs rise because of higher charges in holidays they will have to take on further debt. Any problems reporting their costs could mean they sustain a very significant loss. Claimants needing childcare to move into work are likely to find that the financial risks of doing so are greater than in the current system

However the universal credit regulations covering childcare costs delivery that are expected to come into force in 2016 will exacerbate this situation. They will allow a much shorter period to report childcare costs. In addition, the next universal credit payment after the costs have been paid to the provider and then reported will not include all childcare costs that have had to be paid at that point, but only those costs that have actually been 'consumed' at that time. This will mean that, as well as needing a loan to pay the first months childcare on moving into work some are likely to need a further loan to pay most of the second months costs. Any significant rise in costs for example during school holidays will mean yet another loan may be necessary. In order to work reliably these regulations assume that multiple actions and responses will be carried out perfectly by the claimant month after month and that quick and completely reliable responses will be made by DWP. We think this is unrealistic and likely to lead to multiple problems and disputes. The financial risks when things go wrong are likely to be very significant.

Under tax credits childcare costs are paid in advance. This has caused some problems with overpayments. **The tax free childcare scheme due to start in 2015 for those on a higher level of income will also pay childcare costs in advance** whilst reducing the risk of overpayments by using childcare accounts. We understand that childcare costs in universal credit are to be paid in arrears because of the problems there have been with overpayments in the tax credit system. However as outlined above this is likely to create a different set of problems.

Recommendations

We recommend that DWP trial the use of childcare accounts in universal credit claimants to allow the payment of childcare costs in advance whilst reducing the risk of error and fraud.

Consideration should also be given to the possibility of making the system as a whole simpler by paying 65% of childcare costs through universal credit and passporting through automatically to a further 20% in tax-free childcare. As the means tested support in universal credit tapers out with increasing income, the 20 % in tax-free childcare would remain in place, making the journey off benefits even smoother.

A more detailed analysis

Under current regulations only 70% of childcare costs will be paid. This will cause significant problems making work pay for those who need formal childcare in order to work, have young children and earn at or near the minimum wage. We are very pleased that the Government recognized this by agreeing to raise the support for childcare in universal credit to 85% in 2016. That is still not as high level of support in the current system for low income parents who currently receive 90% or 95%[1]. Even at 85% support for childcare costs in universal credit, many low income lone parents who need to pay for childcare in order to work, will find the gains from work will be much lower in universal credit than in the current system. However it is not only the level of support that is likely to cause problems.

Under tax credits childcare costs are paid in advance. This has caused some problems with overpayments. **The tax free childcare scheme due to start in 2015 for those on a higher level of income will also pay childcare costs in advance** whilst reducing the risk of overpayments by using childcare accounts.

Those on universal credit will receive payments of their childcare costs in arrears. Claimants will have to pay childcare costs up front and then report their payments each month before they receive support. The detail of how this delivery will work up to 2016 will be governed by the current universal credit regulations – we have significant concerns about the impact of this. However a new set of regulations that will cover delivery from 2016 will exacerbate these problems.

The current regulations will operate until at least 2016

Once childcare costs have been paid they will have to be reported in the assessment period they are paid in or the following assessment period. Depending on the alignment between the assessment period and when the childcare provider is due to be paid they will have between one month and two months to report their costs. We believe this structure of payment could cause people to get into serious debt and financial difficulty.

- They are likely to need a loan on entering work to pay the first payment. As long as they report it the payment straight away they will receive 70% of their costs with their next universal credit payment so will be able to pay that month's payment. However……..

- If their assessment period ends shortly after they pay the provider and so they don't report their cost in that assessment period they won't receive the payment that month so they will need a further loan to pay for that months childcare

- If their childcare costs are more than half the monthly cap they may not receive their full entitlement if they miss reporting in time and report two months childcare costs in one month.

- If their childcare costs rise significantly – for example during school holidays - they will need a further loan to pay the extra costs

Current budgeting advances rules do not allow this level of loans. They are only available to those who have been on out of work benefits for 6 months or are on a very low level of income. Even those who qualify can only receive a loan if the previous one has been repaid. The cap on loans is actually much lower than even one month's maximum childcare costs.

[1] 70% support through the childcare element of tax credits and a further 20% through housing benefit. Some will also receive a further 5% through council tax support.

The following scenario demonstrates some of the issues claimants are likely to experience:

Example scenario

Claire is a single parent with two children aged one and five. Her husband left 6 months ago and she has been claiming universal credit since then. Her assessment period runs from 1st to 31st of each month.

On 20th March she finds a job to start on 1st April and finds childcare for her children the following day. To secure their place she needs to pay a month in advance by 24th March.

21st March She applies for a budgeting advance for £600 to pay for childcare costs – she must receive £600 by 24th

24th March pays for 1 months childcare - cost £600. Children start childcare

By 31st March must report payment of childcare costs

7th April Receives universal credit for assessment period 1st to 31st March. Payment includes 70% of £600

24th April pays another £600 childcare costs

By 30th April must report payments in April if wants payment in next months universal credit but doesn't report until May 5th because of bank holiday and then an emergency call from her mother – her father is in hospital – she needs to travel up to help and forgets to report

30th April first months wage (as long as not month in hand)

7th May universal credit payment doesn't include any help with childcare costs. As she was late reporting it will be included in the following months payment. She has to apply for a further budgeting loan of £600

24th May pays another £600 childcare costs

By 30th May must report payments in May if wants payment in next month's universal credit

7th June Receives universal credit for assessment period 1st to 31st May. Payment includes 70% of £1200 (for her childcare costs for April and May – if her costs had been £800 a month instead of £600 she would have had to report May's costs late as well or lost some money as £1600 is higher than the cap for a month's costs of £1300). Payments now continue and claimant no longer needs any more budgeting advances in May or June but then…….

24th July £800 childcare payment due as school holidays mean extra childcare is needed, so claimant will need yet another budgeting advance of £200 (as universal credit will only have paid 85% of £600 on 7th July)

Claire has to apply for 2 separate budgeting advances in a six month period – if she forgets to report in time for one month she will need 3 loans.

The new regulations

Although it is very welcome that 85% of childcare costs will be paid from 2016 there are two aspects of the new regulations affecting the delivery of childcare costs payments, that will make the problems with the current regulations even worse:

- **The short time to report.** Under the new regulations, once childcare costs have been paid they will have to be reported in same assessment period they are paid in. There will be no longer the fallback position of reporting in the following assessment period. Depending on how the assessment period and the childcare payment date fall, the window to report may be anywhere between a month and 3 days. For those without internet facilities at home 3 days is a very short period of time – especially to have to get it right month after month. The penalty for failure could be very high if a claimant needs a lot of childcare in order to work. Childcare providers will often refuse to look after the child if the payment isn't made and this can put the client's job at risk. Obviously we are pleased that if good cause is established then the money is not lost but discretionary decisions like this inevitably lead to disputes and take time. In the meantime the claimant may have to choose between losing their job or taking out a loan from a high interest lender and getting into debt.

- **Apportionment –**Apportioning costs to when childcare is actually delivered will mean that someone who has to pay for three months childcare in advance would not be under the same risk of having their payments limited by the cap as they would under current regulations. The payment instead of counting in full for that assessment period will be apportioned to each of the periods when the childcare is actually 'consumed'. However very few childcare providers insist on payment this far in advance. It also means that they would have to borrow three months costs in advance but would receive their payments spread over the next three months universal credit. For the cap to actually matter the sum they would have to borrow would be well in excess of any help from budgeting advances. **Moreover apportionment will create a need for additional loans.** Someone who starts work at the beginning of their fourth week in their assessment period is likely to have to pay their childcare provider one month in advance. When they receive their next universal credit payment they will only receive 85% of one week's childcare costs so are likely to have to borrow again that month. If childcare costs are higher during school holidays then further borrowing of very significant sums of money may also be required. Even if this cycle of loans was desirable, current rules for budgeting advances in universal credit do not allow this.

The complexity of this system is at odds with the aims of universal credit – **claimants will be trapped in a continual cycle of debt and repayments** – having to borrow not just one payment but possibly several times in succession. The potential losses of support on failure to report in time may make childcare costs unpayable and lead ultimately to job loss.

This delivery of childcare costs in universal credit contrasts very strongly with the care and thought that has gone into making the delivery of the tax-free childcare scheme being as smooth and easy as possible.

Example scenario

Claire is a single parent with two children aged one and five. Her husband left 6 months ago and she has been claiming universal credit since then. Her assessment period runs from 1st to 31st of each month.

On 20th March she finds a job to start on 1st April and finds childcare for her children the following day. To secure their place she needs to pay a month in advance by 24th March.

21st March She applies for a budgeting advance for £600 to pay for childcare costs – she must receive £600 by 24th

24th March pays for 1 months childcare - cost £600 children start childcare

By 31st March must report payment of childcare costs

7th April Receives universal credit for assessment period 1st to 31st March. Payment only includes £127 for her childcare costs (85% of £150) because her children only had one week's childcare in last assessment period

20th April – need to apply for second budgeting advance of £473 (£600 - £127)

24th April pays another £600 childcare costs

By 30th April must report payments in April

30th April first months wage (as long as not month in hand)

7th May universal credit payment includes 85% of £600
Payments now continue and claimant no longer needs any more budgeting advances in May or June but then…….

24th July £800 childcare payment due as school holidays mean extra childcare is needed, so claimant will need yet another budgeting advance of £200 (as universal credit will only have paid 85% of £600 on 7th July)

Claire has had to apply for 3 separate budgeting advances in a six month period.

This cycle continues until…
23rd December Claire pays the nursery £600

6th February Claire realises she has forgotten to report her costs – the number was engaged when she tried to ring and since then she has had a series of problems – her boiler went wrong so she has no hot water or heating, her car needed an MOT and failed and her five year old has a bad cold and needed extra attention.

7th February She will lose 85% of one week's childcare costs. Her universal credit payment will be £127 lower than normal. She doesn't know how she will manage to pay the nursery at the end of this month but is concerned that they will refuse to take her children but she will still owe them the money

We understand that universal credit is to be paid in arrears because of the problems there have been with overpayments in the tax credit system. The problem of avoiding overpayments whilst still paying in advance has been managed in the tax-free childcare scheme through the use of childcare accounts. The Government has promised that claimants of tax-free childcare will not have to pay for childcare accounts. They have been designed as a budgeting tool to "*deliver a smooth and simple user experience, with a single point of contact for parents to register for the scheme, make payments into their account, and arrange payments to their childcare provider."* The money paid into the account by HMRC can be paid only to the childcare provider for that child and otherwise can be recovered out of the account by HMRC thus very significantly reducing the risk of overpayments.

Recommendations

We recommend that DWP trial the use of childcare accounts in universal credit claimants to allow the payment of childcare costs in advance whilst reducing the risk of error and fraud.

Consideration should also be given to the possibility of making the system as a whole simpler by paying 65% of childcare costs through universal credit and passporting through automatically to a further 20% in tax-free childcare. As the means tested support in universal credit tapers out with increasing income, the 20 % in tax-free childcare would remain in place, making the journey off benefits even smoother.